

The complaint

Mr C complains that 1st Class Credit Union Limited was irresponsible to lend to him.

What happened

Mr C had one loan from 1st Class Credit Union in March 2021 as follows:

<u>Loan</u>	<u>Date</u>	<u>Amount</u>	<u>Term</u>	<u>Monthly Repayment</u>	<u>Due</u>
1	30 Mar 2021	£3,000	36m	£100.15	14 Apr 2024

Mr C says he was already in a lot of debt when he applied for the loan and his credit file would have shown a County Court Judgement (CCJ) and a number of defaults. He says that 1st Class Credit Union cannot have carried out the relevant checks as it would have seen this, plus his arrears on existing credit, and would not have lent to him. Mr C says that he was borrowing to repay other debts and the cycle of borrowing had a severe impact on his mental health.

1st Class Credit Union says it reviewed Mr C's credit file and payslips at the time. It says his credit file showed no recent defaults and no other credit union loans. It adds that Mr C also declared his monthly income and expenditure which showed a disposable income of £1,290.

Our investigator did not recommend the complaint should be upheld. Although he was not satisfied that 1st Class Credit Union had carried out proportionate checks, he found that, had it done so there was nothing in the information it was likely to have seen that would have indicated the lending was unsustainable.

Mr C responded to say, in summary, that 1st Class Credit Union did not verify his income and the loan was unaffordable.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I need to take into account the relevant rules, guidance and good industry practice.

Bearing this in mind, in coming to a decision on Mr C's case, I have considered the following questions:

- Did 1st Class Credit Union complete reasonable and proportionate checks when assessing Mr C's loan application to satisfy itself that he would be able to repay the loan in a sustainable way?
 - If not, what would reasonable and proportionate checks have shown?
- Did 1st Class Credit Union make a fair lending decision?
- Did 1st Class Credit Union act unfairly or unreasonably in some other way?

When Mr C applied for the loan, I've seen evidence to show 1st Class Credit Union checked his credit file, asked about his financial circumstances and verified his income. These checks showed:

- Mr C's income varied, depending on overtime, but averaged around £1,700 in the lead up to the loan;
- Mr C declared he was divorced, with 2 dependants and living with family;
- He said he paid £350 each month for rent and £60 for a mobile phone;
- A credit file with:
 - Nine active accounts:
 - Three with a zero balance;
 - Two up-to-date telecoms loans with a combined balance of £1,673;
 - Four defaulted accounts with a combined balance of £1,127;
 - Three CCJs
 - One was satisfied;
 - The other two had an active balance of £941;
 - The most recent was from January 2017.

Based on the above, I don't consider 1st Class Credit Union's checks went far enough. I say that because:

- The loan was for a term of three years and 1st Class Credit Union needed to be sure the repayments were sustainable for that period;
- Mr C had clearly struggled financially in the past;
- I can't see 1st Class Credit Union verified Mr C's expenditure and the declared figures only included rent and phone costs.

So, I consider 1st Class Credit Union should have ensured it had a thorough understanding of Mr C's financial circumstances, including his regular household expenditure, before it agreed to the lending.

I've had a look at Mr C's bank statements from the time as a reasonable proxy for what proportionate checks may have shown. I can see that:

- Mr C had lending with two other credit unions, but those repayments were deducted directly from his salary;
- He appeared to be paying rent of £625 up until December 2020, but this ceased, and he received his deposit back in February 2021;

- I acknowledge Mr C told 1st Class Credit Union that he was living with family when he applied for the loan, and I can't see any regular rental payments;
- Mr C was paying child maintenance of around £350 per month;
- I can see monthly payments of about £265 towards mobile phone contracts and around £30 monthly on subscriptions;
- The most recent default was registered in October 2019.

I'm satisfied that the above analysis shows Mr C had limited regular outgoings and that those, plus his spend on food and petrol still left him with sufficient disposable income to repay the loan at £100 per month. I acknowledge Mr C's credit file showed some adverse information, but as this was from some time ago, I don't find 1st Class Credit Union was irresponsible to have approved the lending.

So, in summary, although I don't consider 1st Class Credit Union carried out proportionate checks, I don't find such checks would have led it to a different conclusion about the lending. As such I find 1st Class Credit Union made a fair lending decision and I haven't seen any evidence to show that it acted unfairly or unreasonably in any other way. That said, having looked at Mr C's more recent credit file, I can see that his financial situation appears to have deteriorated since March 2021, so I would remind 1st Class Credit Union of its obligation to treat Mr C positively and sympathetically when attempting to agree a repayment plan for the outstanding balance.

My final decision

My decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 20 December 2023.

Amanda Williams
Ombudsman